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CounselLink Enterprise Legal Management
TRENDS REPORT

UPDATE ON THE
6 KEY
METRICS

FEBRUARY 2018

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Executive Highlights

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Insights are based on data derived from over \$30 billion in legal spending, almost seven million invoices, and approximately 1.7 million matters processed through the CounselLink platform. The key metrics are based on 2017 charges billed by outside counsel.

THE GAP BETWEEN PARTNER HOURLY RATES FOR “LARGEST 50” FIRMS AND THE “SECOND LARGEST” FIRMS CONTINUES TO GROW

The “Largest 50” firms with more than 750 lawyers have billable rates that are 45% higher than the next tier of firms (501-750 lawyers). In 2016, rates were 34% higher for the largest 50. Further, the median rate for the largest 50 firms increased 8% versus the median in 2016.

2017 RATE INCREASES WERE HIGHER AND MORE WIDESPREAD THAN IN PREVIOUS YEARS

The analysis of 2017 rates revealed higher rate increases than in prior years, and more of the country showing high increases than in prior years. Five major cities, (Seattle, Boston, Chicago, LA, and NYC) show rate growth of 4.0% or more both in short term (1 year) and longer term (3 year CAGR). This compares to three cities (Boston, Seattle, and Washington, D.C.) that showed growth of 3.5% in the last Trends Report.

MERGER AND ACQUISITION WORK WAS DOMINATED BY THE LARGEST 50 FIRMS IN 2017

The largest firms were responsible for 68% of the billings generated by Merger and Acquisition (M&A) transactions in the period. Four years ago, we reported a two year trend showing a shift of M&A work to the “second largest” firms. That trend has reversed itself. Accordingly, M&A rates have increased materially versus 2016 and the 3 year CAGR (more than 4.0% in both growth rates).

LAW FIRM CONSOLIDATION HAS STABILIZED

60% of companies in the data pool have 10 firms or fewer accounting for at least 80% of outside counsel fees. In 2016, 62% of companies were highly consolidated.

Introduction

The first edition of the CounselLink Enterprise Legal Management Trends Report was published in October 2013. That report established a set of key metrics based on data available via the CounselLink Enterprise Legal Management platform and provided insights that corporate law departments and law firms could use to guide their decisions and subsequent actions.

With the volume of data available for analysis growing with each passing year, the 2018 edition of the Trends Report represents the most up-to-date and even more detailed picture of how legal market dynamics are evolving over time.

As always, information about the methodologies used, definitions, and expert contributors conducting the analysis are presented at the end of the report.

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Each annual update of the CounselLink Enterprise Legal Management Trends Report covers a standard set of key metrics related to hourly legal rates and the corporate procurement of legal services.

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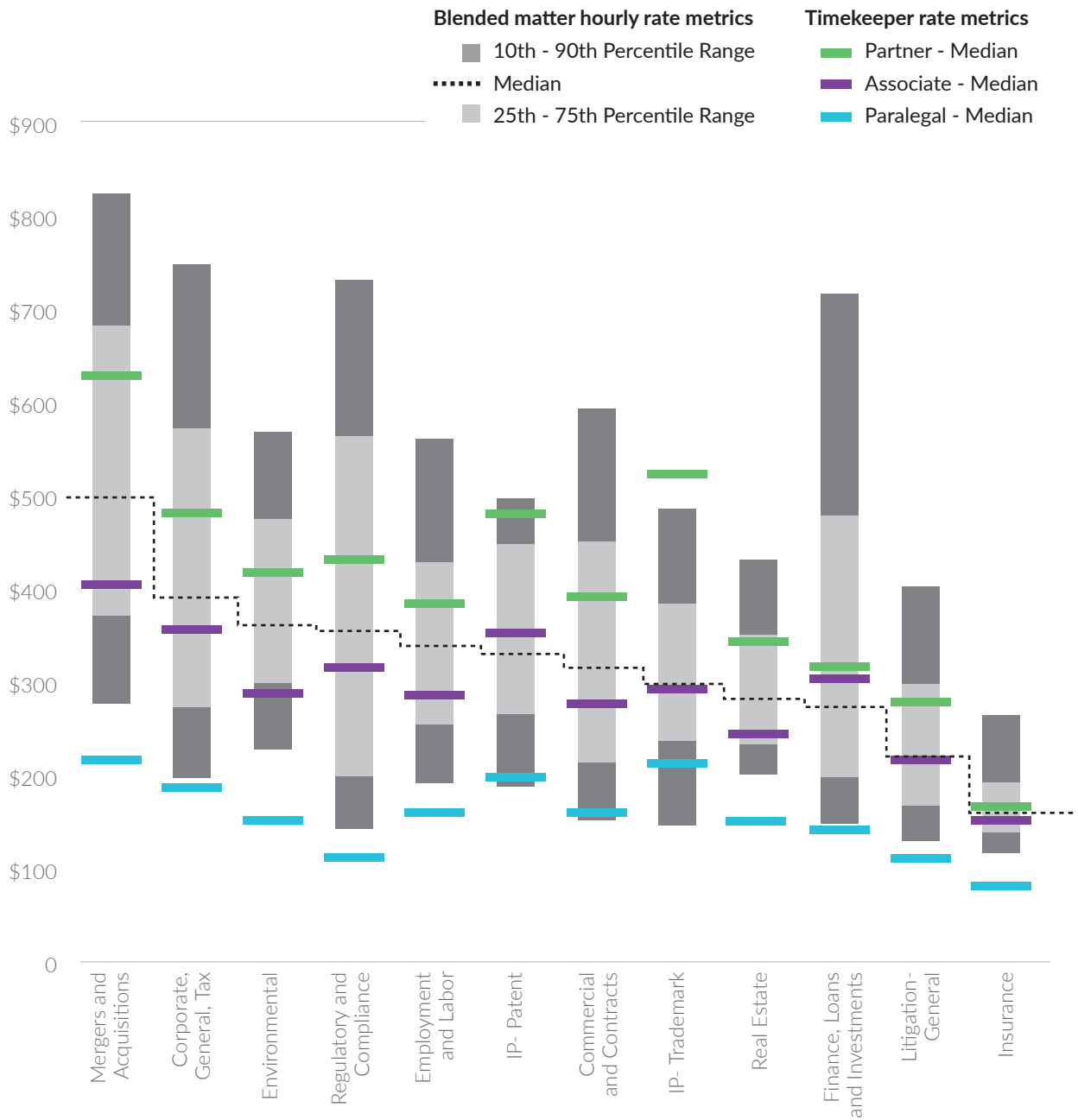
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Blended Hourly Rate for Matters – by Practice Area

Blended hourly rates and rate volatility differ by type of work

Based on 2017 data

Practice areas ordered by median blended matter rates



Volatility Rate



Volatility is a calculated indicator of blended rate variability. Higher numbers suggest a better opportunity to negotiate rates and/or the assigned timekeeper mix.

See following page for guidance on interpreting this chart.

Interpreting the Chart:

The chart on page 6 captures median rates for three different groups of timekeepers (partners, associates, and paralegals) and the range of the blended average hourly rate across multiple matter types. As a guide to interpreting the output, consider IP-Patent compared to Corporate, General, Tax. These two categories have somewhat similar average hourly partner rates – \$488 and \$489, respectively – but IP-Patent work requires significantly less partner time. The result is a noticeably lower blended median rate for IP-Patent work (\$333) versus the same rate for Corporate, General, Tax (\$395).

An additional metric provided in this section is the Volatility Index – a calculated marker indicating the variability encountered in blended matter rates. Using a 10-point scale, the Index reflects how broad the spread is between the 25th and 75th percentiles of hourly rates. High volatility scores indicate greater variance in prices paid based on the mix of timekeepers and individual hourly rates.

Although individual lawyer rates are the focus of considerable industry attention, it is equally, or arguably more important, to look at the bigger picture – the blended average rate of the different timekeepers that work on a matter. The chart shows that the median blended hourly rate is highest for Mergers and Acquisitions, where the most expensive firms are more often involved and with a great amount of partner engagement.

Comparing Regulatory and Compliance to Insurance as an example, the spread between the 25th and 75th percentiles of blended hourly rates for Regulatory and Compliance work is broader than that for Insurance. On a 10-point scale, Regulatory and Compliance has a Volatility Index of 10, while Insurance has an index of two, indicating that the mix of timekeepers and rates paid on Regulatory and Compliance matters varies more significantly than the mix for Insurance. A high Volatility Index could also be an indicator of a wide variety of matter types being represented in this category.

Seven matter types have a relatively low Volatility Index (4 or lower), which means rates are consistent and less subject to negotiations between corporations and their firms.

- Insurance
- Environmental
- Real Estate
- Litigation
- IP-Trademark
- IP-Patent
- Employment and Labor

Rates across most practice areas are rising relative to prior reports, however, most notably for:

- Corporate, General, Tax
- Finance, Loans and Investments
- Mergers and Acquisitions
- Employment and Labor
- Real Estate

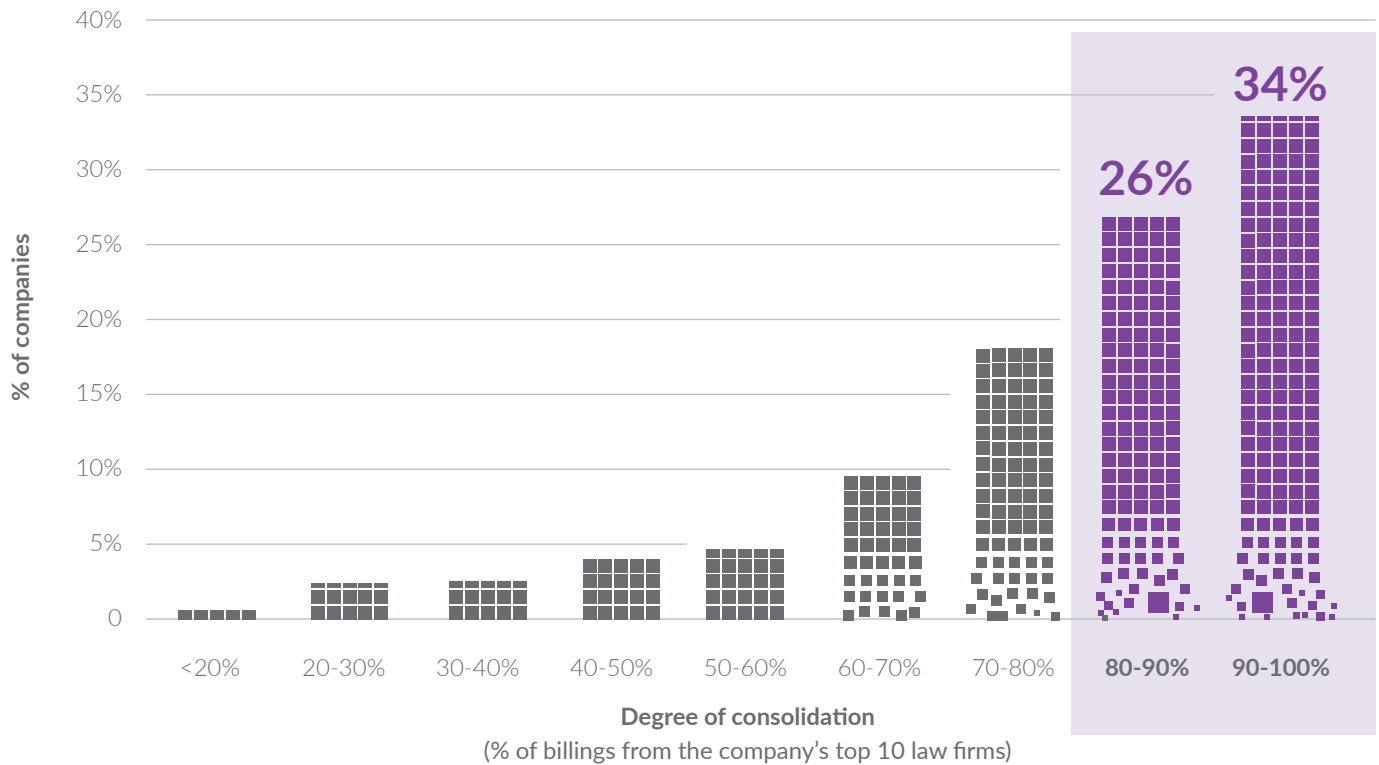
The overall trend of rates is down slightly for Environmental and Regulatory/Compliance practice areas.

Legal departments can compare their own data against these rates and ranges for help in managing costs. If they are currently paying at the top end of the range for more volatile matter types, there may be an opportunity to negotiate lower rates or to request a different mix of timekeepers to reduce costs. Note, however, that when looking at trends, it is important to evaluate the entire range of rates rather than focusing solely on the median rate.

Law Firm Consolidation – Number of Legal Vendors Used by Corporations

60% of companies in the data pool have 10 firms or fewer accounting for at least 80% of outside counsel fees

Based on 2017 data



Interpreting the Chart:

This chart shows the degree of law firm consolidation among companies whose outside counsel legal billings are processed through CounselLink. The horizontal axis aligns participating companies into nine segments addressing different degrees of consolidation. For example, the bar on the far right indicates that 34% of participating companies have 90-100% of their legal billings with 10 or fewer vendors, representing the most consolidated legal departments. On the other hand, the far left bar shows the least consolidation, with 1% of companies having less than 20% of their legal billings with 10 or fewer firms.

Industry type plays a significant role in consolidation. The segments noted below, reflecting high and low degrees of consolidation, were also identified as such in earlier Trends Reports:

- Retail Trade companies, at 69%; Information companies, at 71%; Manufacturing – other companies, at 72%, are highly consolidated.
- The Insurance industry has the lowest level of consolidation, at 40%.

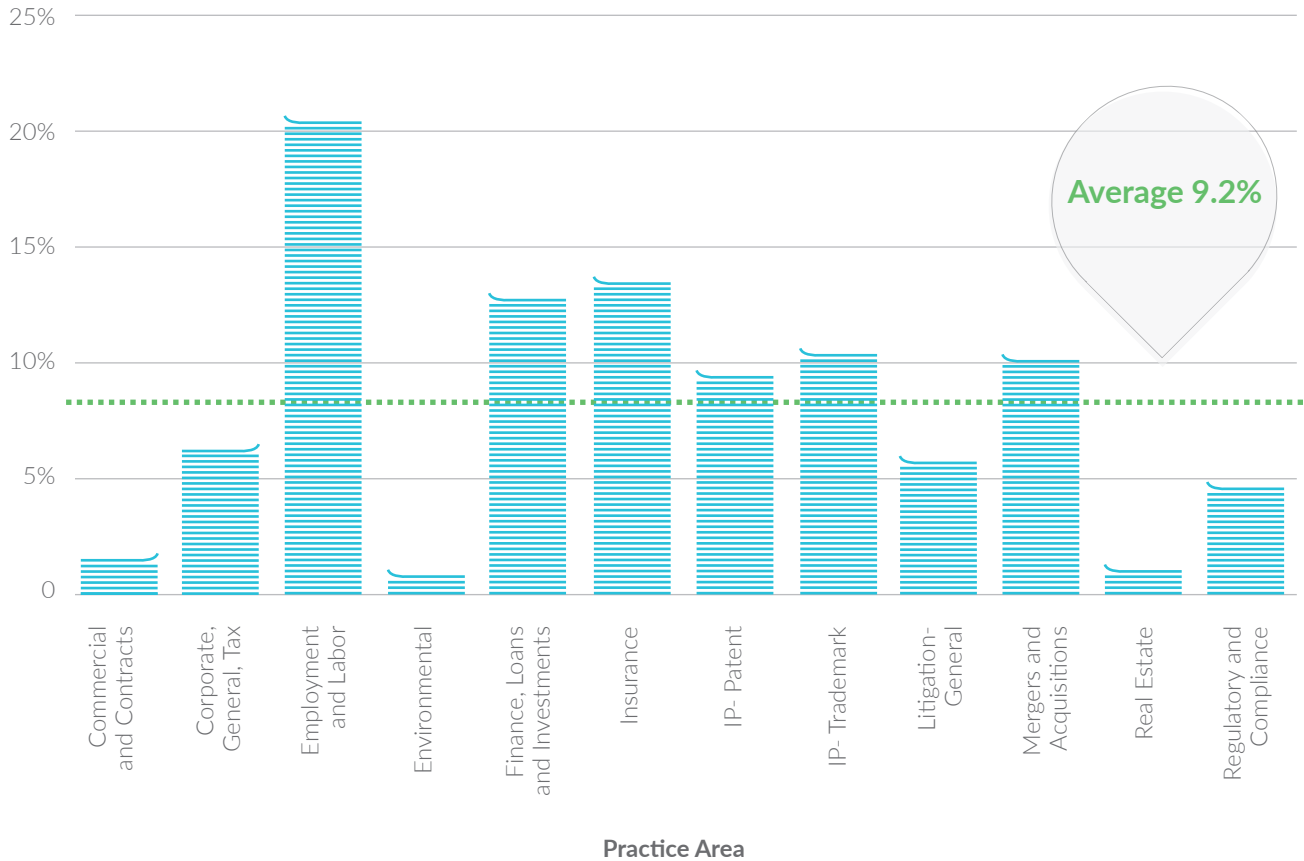
Overall, the percentages of corporations with high levels of law firm consolidation remained consistent since the last Trends Report.

Alternative Fee Arrangement (AFA) Usage

Alternative Fee Arrangements were used in 9.2% of matters and 7.4% of billings in the past year

Based on 2017 data

% OF MATTERS UTILIZING AFA



The use of AFAs to govern legal service payments varies considerably by legal matter type. Commodity-type work such as Insurance, IP-Patent, IP-Trademark, and Employment and Labor usually have the highest volume of matters billed under AFAs. The percentage of matters under AFA billings for Employment and Labor has continued to grow since the last Trends Report, with 20% now billed under an AFA.

Overall use of AFAs remains fairly stable relative to previous reports, with the percentage of matters billed under an AFA decreasing by 0.7 points compared to 2016 and the percentage of billings executed under an AFA decreasing by 0.1 point.

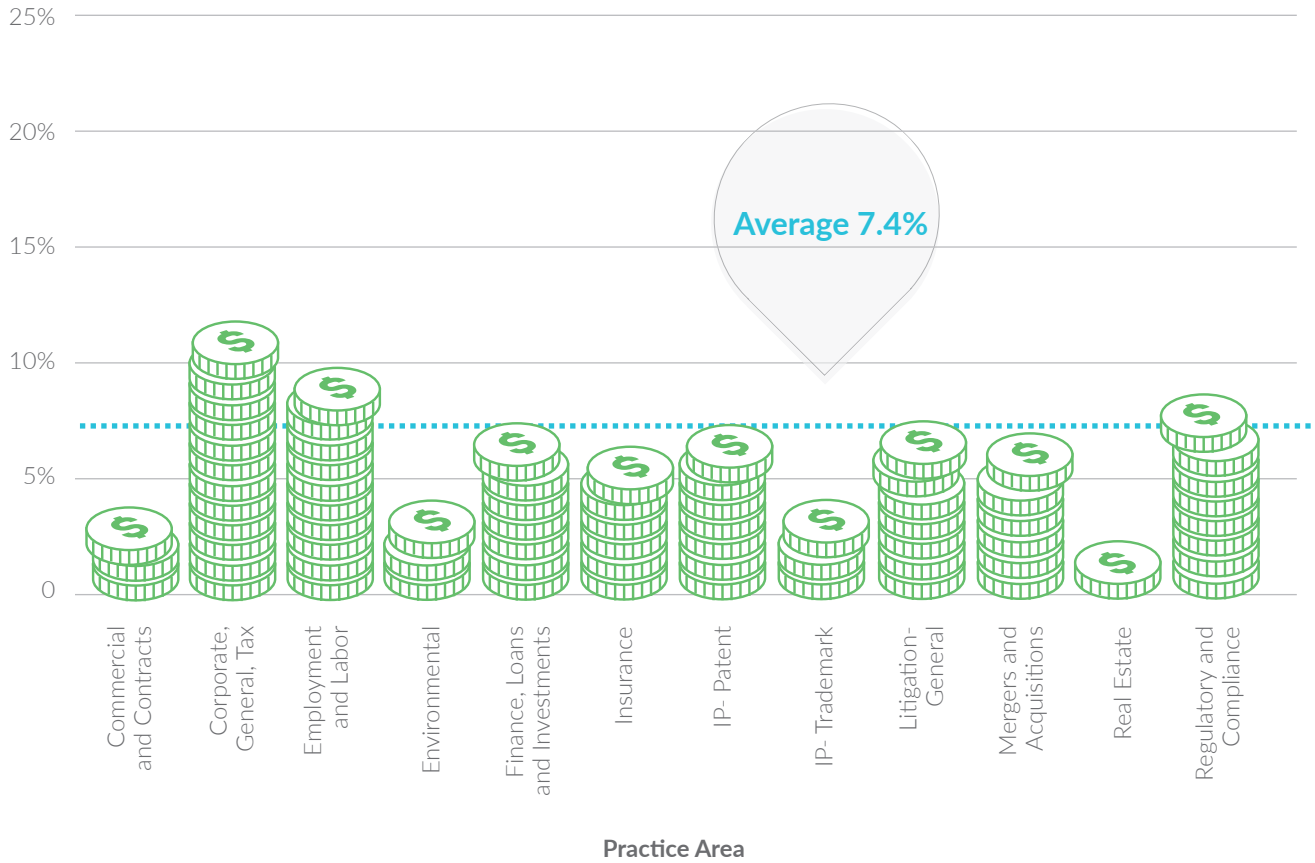
Mergers and Acquisition matters exhibit a significant increase in AFA activity since the last Trends Report, nearly doubling to 10%. This is noteworthy in a period in which M&A transactions are increasing.

Alternative Fee Arrangement (AFA) Usage

Alternative Fee Arrangements were used in 9.2% of matters and 7.4% of billings in the past year

Based on 2017 data

% OF BILLINGS EXECUTED UNDER AFA



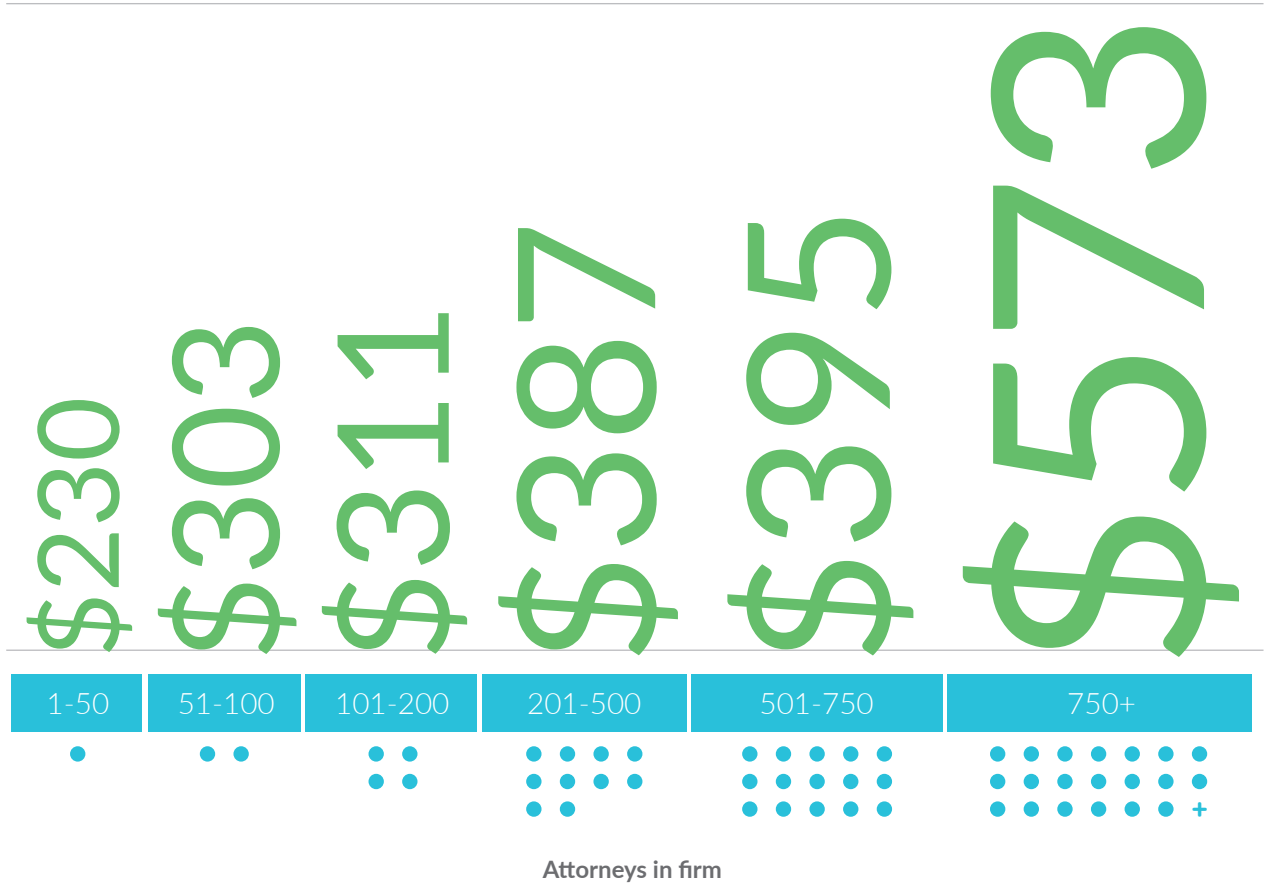
As we have observed in previous Trends Reports, we are continuing to see high-cost matters, or portions of them, being billed under some form of an AFA.

Partner Hourly Rate – Overall

Average rates across practice areas (excluding Insurance)

Based on 2017 data

MEDIAN PARTNER HOURLY RATES BY LAW FIRM SIZE



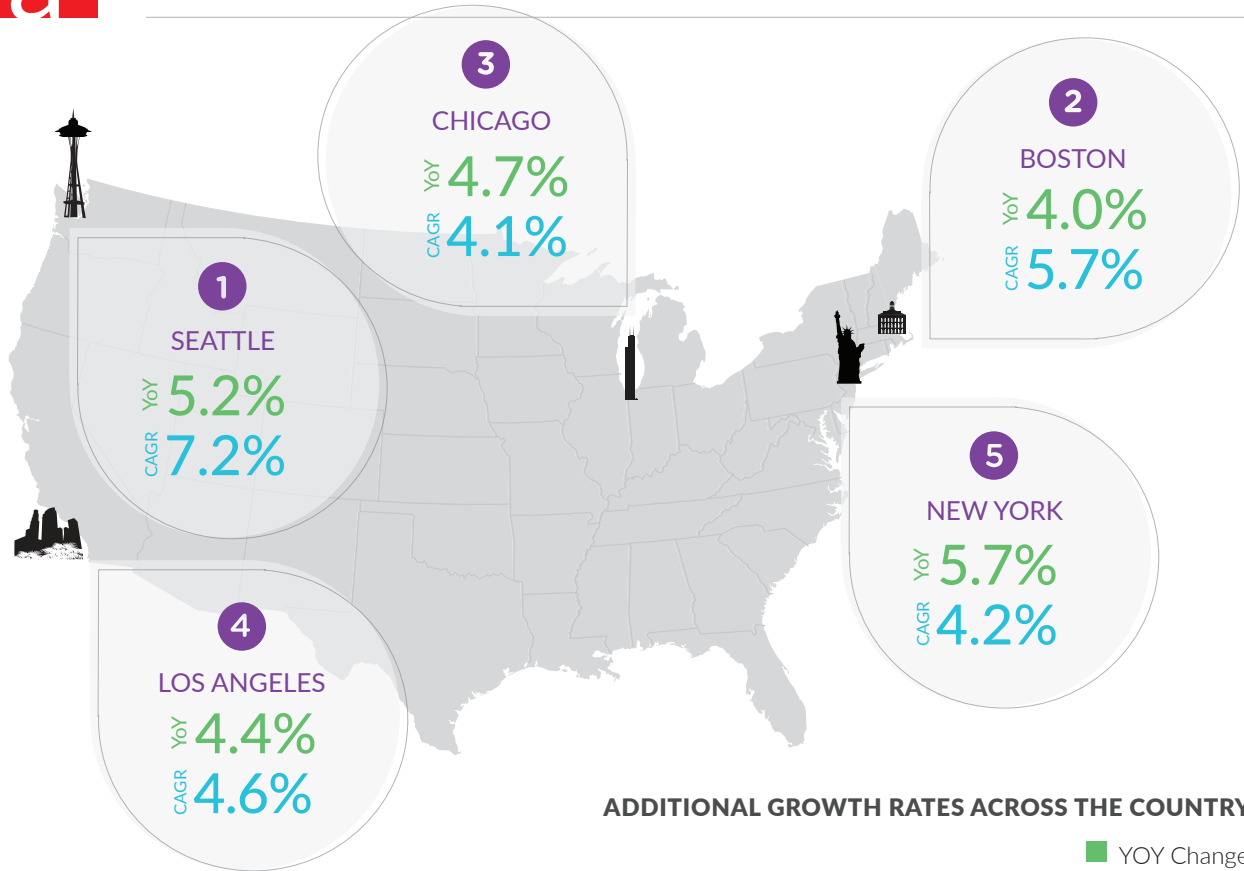
The gap between the average partner rates at the “Largest 50” firms (those with 750+ lawyers) and those at the “Second Largest” firms (501-750 lawyers) has continued to widen since our last report. Firms with more than 750 lawyers have billable rates that are 45% higher than the next tier of firms (501-750 lawyers). This compares to a 40% gap reported in 2016.

KEY METRIC
5a

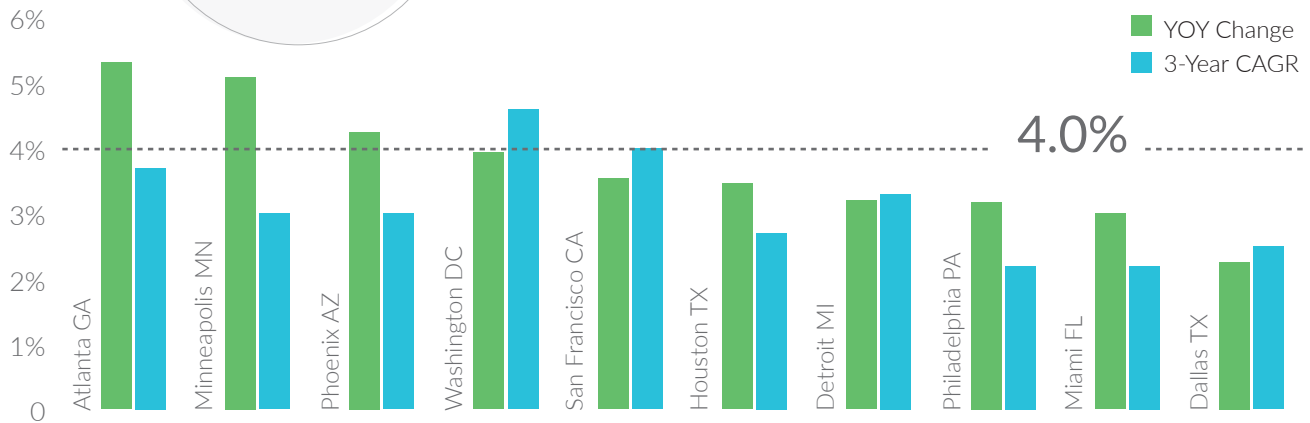
Partner Hourly Rate Growth – by City

Five major cities show rate growth of 4.0% or more over both the last year and the last three years

Based on 2017 data



ADDITIONAL GROWTH RATES ACROSS THE COUNTRY



Interpreting the Chart:

In looking at unique partner hourly rates across 15 major metro areas, two indicators were plotted for each location to show both the year-over-year change and the compound annual growth rate (CAGR) over a three-year span.

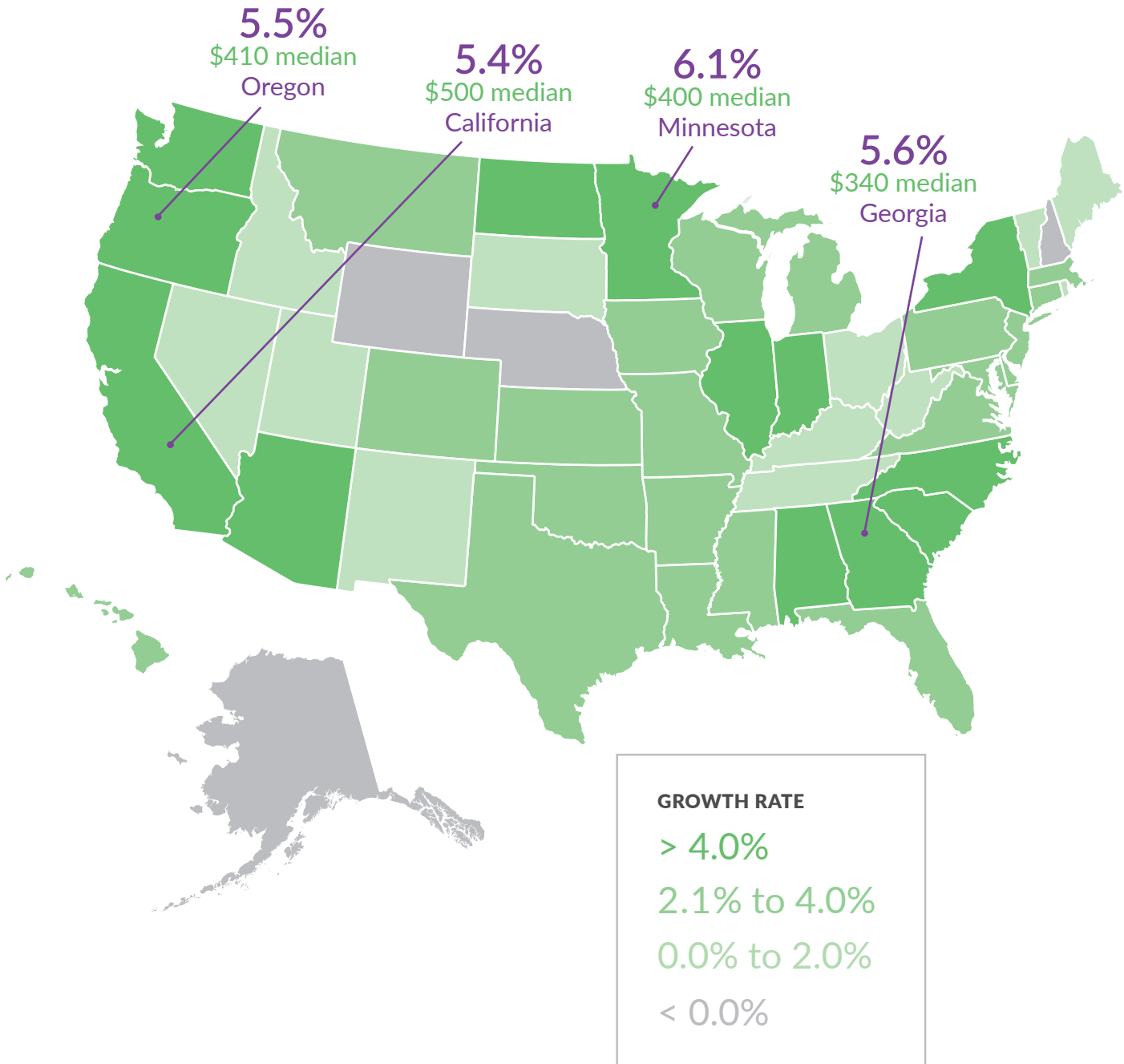
Data for attorney rate growth by major U.S. city show that Seattle, Boston, Chicago, LA, and NYC are at or above 4.0% in both compound annual growth rate (CAGR) and annual growth rate. On the opposite end of the spectrum, Miami and Dallas saw hourly rate growth below 3.0% in both metrics.

KEY METRIC
5b

Partner Hourly Rate Growth – by State

Growth in average partner rates varies by state, averaging 3.2% year-over-year growth

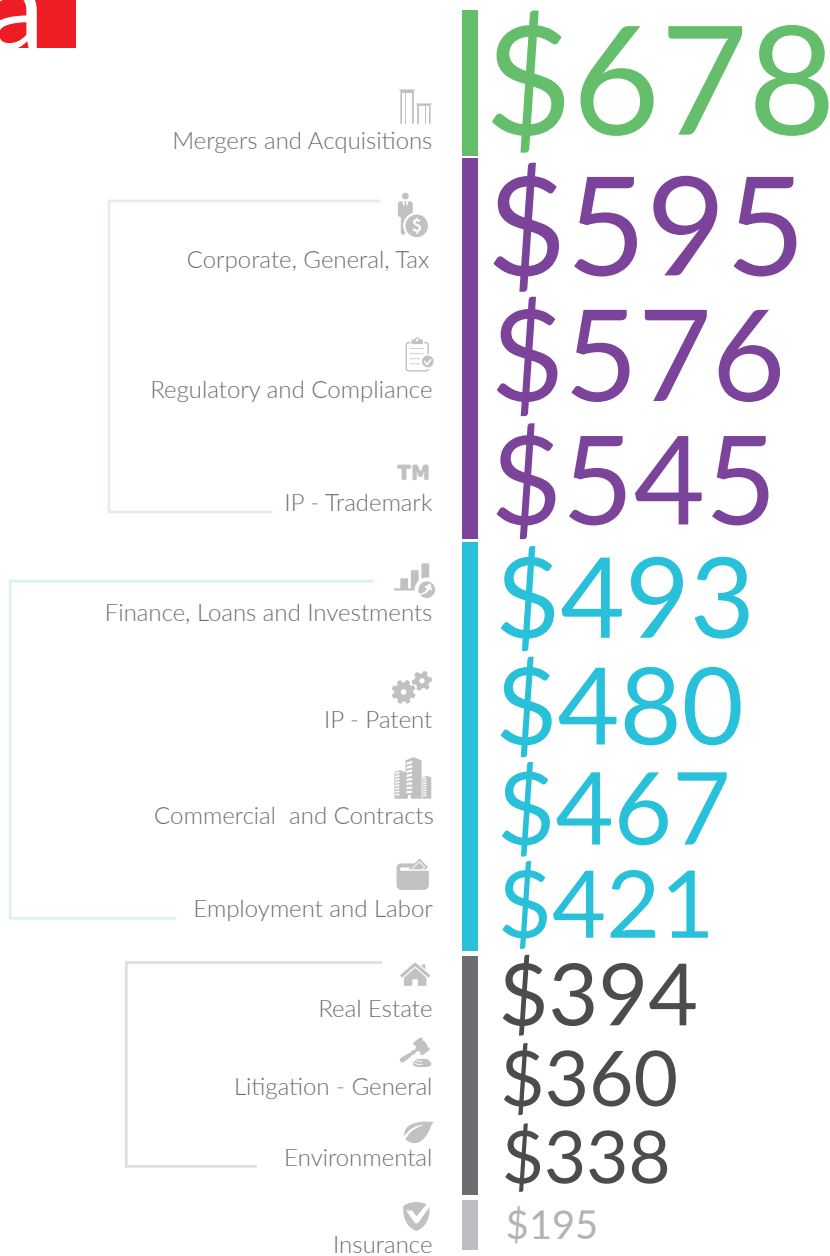
Based on 2017 data



The average growth in partner rate across states has continued to increase in 2017, with average growth of 3.2%, compared to 3.0% average growth 2015 to 2016.

Partner Hourly Rate – by Practice Area

Based on 2017 data

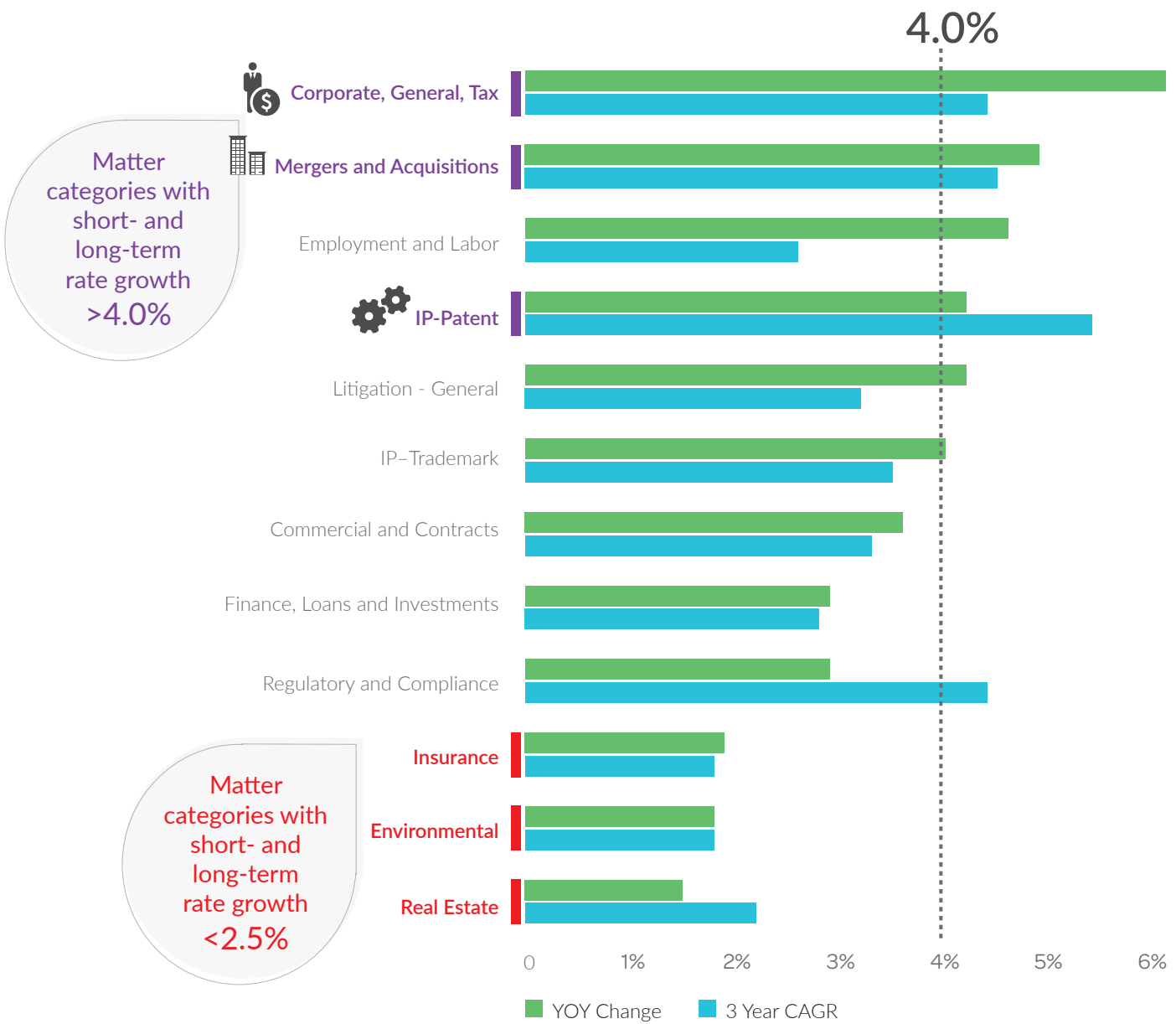


Aggregate statistics based on CounselLink solution invoice data submitted in the last 12 months identify Mergers and Acquisition as the practice area with the highest partner rate - \$678. Next is Corporate, General, Tax (which includes advice and counsel, antitrust work, and tax-related matters), followed by Regulatory and Compliance. In part, both practice areas at the top occupy those spaces because companies often use larger firms for these kinds of matters. In the last 12 months, the “Largest 50” firms handled 68% of Merger and Acquisition work, 44% of Corporate, General, Tax legal work, 46% of Regulatory and Compliance work versus 34% for all other types of legal work. At the lower end of the average hourly rate spectrum is insurance work. Insurance companies demand and negotiate aggressively for low rates on their commodity defense matters.

Partner Hourly Rate – by Practice Area

Three practice areas show 4% partner rate growth over both the last year and the last three years

Based on 2017 data



Turning to partner rate growth by practice area, 3 of the 12 practice area categories have shown growth at or exceeding a 4.0% rate during the past year and over the previous three-year period: Mergers and Acquisitions; Corporate, General, Tax; and IP-Patent.

Partner rates for Insurance, Real Estate, and Environmental are growing notably more slowly than rates in other practice areas.

About the Enterprise Legal Management Trends Report

TERMINOLOGY:

Matter Categorization – CounselLink solution users define the types of work associated with various matters that were analyzed and categorized into legal practice areas. For this analysis, all types of litigation matters are classified as “litigation,” regardless of the nature of the dispute.

- Other, as an open category for all other matters and bills not already addressed.

Company Size – Based on revenue cited in public sources, companies were grouped into these three size categories:

- \$10 Billion Plus
- \$1-10 Billion
- < \$1 Billion

Company Industry – Companies were mapped into the NAICS hierarchy based on publicly available information:

- Finance
- Information
- Insurance
- Manufacturing
- Pharmaceutical
- Professional, Scientific and Technical Services
- Retail Trade
- Transportation and Warehousing
- Other

Expert Contributor

Since the inception of the CounselLink Enterprise Legal Management Trends Report, Kris Satkunas has been the principal author. She has made notable contributions to this latest Enterprise Legal Management Trends Report in the analysis of CounselLink data and in preparing the surrounding narrative.

Author

KRIS SATKUNAS - DIRECTOR OF STRATEGIC CONSULTING

As Director of Strategic Consulting at LexisNexis CounselLink, Kris leads the CounselLink team in advising corporate legal department managers on improving operations with data-driven decisions. Kris is an expert in managing the business of law and in data mining, with specific expertise in matter pricing and staffing, practice area metrics and scorecards.

Prior to joining CounselLink, Kris served as Director of the LexisNexis Redwood Think Tank, which she also established. For five years, Kris worked closely with thought leaders in large law firms conducting unbiased data-based research studies focused on finding solutions to legal industry management issues. Before that, she led the business of law consulting practice for large law firms. During that time she worked with key management at over a hundred law firms to improve the financial models and analyses developed for large law firms.

Kris has authored numerous articles and spoken at many legal industry conferences and events. She came to LexisNexis in 2000 after having honed her finance skills as a Senior Vice President in Strategic Finance at SunTrust Bank. She holds a B.B.A. in Finance from The College of William and Mary.

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LinkedIn 

About LexisNexis® CounselLink®


The CounselLink solution is an Enterprise Legal Management solution suite for legal spend management, matter management, legal hold, analytics, and strategic consulting services. The solution has earned an industry reputation for enabling corporate law departments to use data effectively as a basis for improving legal department performance and outcomes. Two factors validate these customer opinions and perceptions:

- Specific legal spend and matter management features in the CounselLink solution give corporate clients advanced capabilities to evaluate legal department performance and metrics on an ongoing basis, entirely on their own.
- LexisNexis invests significant resources in professional consulting and service offerings that add a valuable layer of expertise in analytics, benchmarking, and best practices. The overall goal with these optimization programs is to help clients translate data-driven analysis into actions that improve efficiency and bottom-line results.

If you have questions or comments about the CounselLink Enterprise Legal Management Trends Report, or want to learn more about CounselLink software and services, visit CounselLink.com, or contact us via email: LNCounselLink@LexisNexis.com. You may also contact us by phone: 855.974.7774.

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